

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PIKE COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Pike County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Pike County Sheriff had total receipts of \$2,014,409, which was a \$382,662 increase from the prior year. The Sheriff paid 25% of receipts to the Pike County Fiscal court in the amount of \$282,612 and 75% of receipts to the Kentucky State Treasurer in the amount of \$1,701,251, which includes reimbursed expenses in the amount of \$283,964 and fiscal court contributions of \$569,450. In addition, disbursements of the operating fund with the State Treasurer totaled \$1,569,468, which was a \$352,319 increase from the prior year.

Report Comments:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties
- Carrying Concealed Deadly Weapon Permit Fees Of \$16,985 Are Missing

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Honorable Charles E. Keese, Pike County Sheriff
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Pike County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2006. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Office Lacks An Adequate Segregation Of Duties
- Carrying Concealed Deadly Weapon Permit Fees Of \$16,985 Are Missing

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Pike County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

July 23, 2007

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Grants:

Kentucky Law Enforcemnt Foundation Program Funds	\$ 44,707	
Highway Transportation Grant	<u>8,668</u>	\$ 53,375

State Fees for Services:

Finance and Administration Cabinet	149,593	
Sheriff's Security Service	43,490	
Telecommunications Franchise Commissions	6,454	
Return of Fugitives	<u>10,191</u>	209,728

Circuit Court Clerk	3,501
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Fiscal Court	523,637
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County Clerk	19,230
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Commission on Taxes	938,455
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Fees Collected for Services:

Auto Inspections	15,851	
Accident and Police Reports	125	
Serving Papers	52,711	
Carrying Concealed Deadly Weapon Permits	16,335	
Sheriff's Advertising Fees	5,950	
Penalty on Tax Collections	<u>109,027</u>	199,999

Other Revenues:

Transporting Mental Patients	28,242	
Reimbursements	12,348	
Miscellaneous	25,607	
Interest	<u>287</u>	<u>66,484</u>

Total Revenues	<u>2,014,409</u>
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The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
 CHARLES E. KEESEE, SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Carrying Concealed Deadly Weapon Permits	\$	13,585
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Other Expenditures:

Travel	\$	12,425	
Miscellaneous		2,715	
Juror Expense		1,457	16,597

Total Expenditures			30,182
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Net Revenues			1,984,227
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Payments to State Treasurer:

75% Operating Fund	*	1,701,251	
25% County Fund		282,612	1,983,863

Balance Due Fiscal Court at Completion of Audit			\$ 364
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* Includes reimbursed expenses of \$283,964 and fiscal court contributions in the amount of \$569,450.

PIKE COUNTY
 CHARLES E. KEESEE, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2006

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2006	\$ (131,783)	\$	\$ (131,783)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,701,251		1,701,251
Fees Paid to State - County Funds (25%)		282,612	282,612
Total Funds Available	1,569,468	282,612	1,852,080
<u>Expenditures</u>			
Pike County Fiscal Court	18,068	282,612	300,680
Official's Statutory Maximum	89,031		89,031
Personnel Services-			
Deputies' Salaries	736,787		736,787
Employee Benefits-			
Employer's Share Social Security	59,794		59,794
Employer's Share Retirement	95,226		95,226
Employer's Paid Health Insurance	182,759		182,759
Other Payroll Disbursements	32,379		32,379
Operating Expenses	272,000		272,000
Capital Outlay	83,424		83,424
Total Expenditures	1,569,468	282,612	1,852,080
Fund Balance - December 31, 2006	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

PIKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Forfeiture Account

The Pike County Sheriff maintains an official bank account for monies obtained from seizures and sales of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The beginning balance as of January 1, 2006 was \$7,843. During calendar year 2006, funds of \$35,105 were received and \$27,074 was expended, leaving a balance of \$15,874 as of December 31, 2006.

PIKE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 5. Undercover Drug Fund

The Pike County Sheriff maintained an official bank account for the purpose of combating illegal drug activity. This account was closed out during calendar year 2006. The beginning balance as of January 1, 2006 was \$113. During calendar year 2006, no funds were received and \$113 was expended, leaving a zero balance as of December 31, 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Pike County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated July 23, 2007. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pike County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pike County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks An Adequate Segregation Of Duties
- Carrying Concealed Deadly Weapon Permit Fees Of \$16,985 Are Missing



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pike County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Pike County Sheriff's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Pike County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 23, 2007

COMMENTS AND RECOMMENDATIONS

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

During our audit, we noted the Sheriff's internal control structure lacks an adequate segregation of accounting duties. The Sheriff's bookkeeper completes all daily deposits, records all receipts and disbursements, completes all the financial reporting and reconciles the bank statements. The current design in the internal control structure does not reduce the level of risk that errors or material misstatement of the financial statements may occur and not be detected.

We recommend the Sheriff either segregate these duties or implement the following compensating controls:

- The Sheriff could review monthly reports. The Sheriff could document this by initialing the monthly reports.
- The Sheriff could periodically perform surprise cash counts. He could document this by initialing the daily sheet.
- The Sheriff could review the monthly bank reconciliation prepared by bookkeeper.
- The Sheriff could distribute payroll checks to the employees. Also, each employee could sign a payroll distribution list and the Sheriff could approve this when payroll is distributed.

Sheriff's Response: No Response.

Carrying Concealed Deadly Weapon Permit Fees Of \$16,985 Are Missing

The Sheriff discovered 192 Carrying Concealed Deadly Weapon (CCDW) permit applications that were submitted to his office for processing that were not processed and the associated fees were missing. In addition, the Sheriff discovered additional CCDW applications that had been mailed to the Kentucky State Police for processing in which the associated application fees could not be accounted for.

An applicant for a CCDW license must complete an application form at the sheriff's office and pay a \$60 application fee to be considered to issue or renew licenses to carry concealed firearms or other deadly weapons. During 2005, the Sheriff retained a \$20 fee and the Kentucky State Police billed the sheriff monthly for each CCDW permit processed charging \$40 per application.

An employee of the Sheriff's office collected both the application form and permit fees. The permit fees were given to the bookkeeper to be included in the daily deposits. However, there was not a procedure in place to agree the number of permits received to the total amount of CCDW license fees collected.

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(CONTINUED)

Carrying Concealed Deadly Weapon Permit Fees Of \$16,985 Are Missing (Continued)

It has been determined the Sheriff has \$16,985 of missing fees for 2005 relating to CCDW license permits. According to an indictment dated January 25, 2007, the Sheriff alleges that a former employee collected the fees related to CCDW permit applications and kept those fees as her own. The former employee is charged with four counts of theft by failure to make required disposition of property (each count is a Class D Felony).

We recommend the Sheriff put procedures in place to agree the total number of permits received to the total amount of CCDW license fees collected. In addition, we recommend the Sheriff seek guidance from the County Attorney and KSP to seek restitution of these missing funds and any funds recovered should be remitted to the fiscal court as excess fees.

Sheriff's Response:

The Sheriff's office has been in contact with the Commonwealth Attorney's office, regarding the legal status of the case against the former deputy. Auditor was advised that detective with the Commonwealth Attorney's office, would like to discuss the audit findings reference CCDW funds and how the dollar figure was determined.

An improved method of checks and balances has been initiated. This requires dual signatures when money and application change hands. Also accountable is maintained thru a numbered invoicing system in which all numbers must be in sequence.

